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C O N F I D E N T I A L ANKARA 007784

SIPDIS

STATE FOR E, EB AND EUR/SE  
TREASURY FOR OASIA -- LOEVINGER, MILLS AND LEICHTER  
NSC FOR BRYZA AND MCKIBBER

E.O. 12958: DECL: 12/18/2013

TAGS: [EFIN](#) [PREL](#) [TU](#)

SUBJECT: AMBASSADOR AND BABACAN DISCUSS FINANCIAL AGREEMENT

REF: ANKARA 7096

(u) Classified by Ambassador Eric S. Edelman. Reasons: 1.5  
(b,d)

[11.](#) (U) This is an action request -- see para 6.

[12.](#) (C) At the end of their December 17 discussion on economic and investment issues (septel), Ambassador told State Minister Babacan that, in response to the Prime Minister's request, the U.S. was exploring ways -- within the parameters of our legislation approving the funds -- to help the GOT overcome its difficulties with the Financial Agreement's political conditionality language. Ambassador noted that he had recently passed to MFA U/S Ziyal draft revised language that eliminated much of the conditionality wording in the Agreement and instead simply referred to the conditionality in the legislation. He stressed that the amended language was, in essence, a "fig leaf"; the conditionality would still be there, only less obvious in the Agreement itself.

[13.](#) (C) Babacan said he understood what the U.S. was proposing, but doubted it would solve the GOT's political problem. He then recounted, with considerable frustration, how this problem had come about. The political conditionality was clear in the legislation, and was heavily publicized in Turkey back in March-April. "We assumed everyone knew." Then, before signing the agreement in September, he discussed the conditionality with Foreign Minister Gul, who checked with MFA experts and told Babacan the political conditionality was okay. After the agreement was signed, the press and military began to complain. Babacan said he was "shocked" to hear TGS generals saying they were unaware of the conditionality -- "how could everyone else have known about this, but they didn't?"

[14.](#) (C) The biggest problem, Babacan continued, was that the President did not like the conditionality. While he could not block the Agreement if Parliament approved it, he likely would refuse to sign a Council of Ministers decree ratifying it. Thus, the GOT had been forced to hold off on Council of Ministers ratification. Babacan complained that many who were critical of the conditionality did not actually understand it, probably including the President. Even U/S Ziyal, he said, had not initially understood how the conditionality worked, and Babacan had needed to explain it to him.

[15.](#) (C) Babacan recounted that Treasury Secretary Snow had told him in Mexico recently that the Agreement could be changed to make it a 100 percent grant. Even in that case, however, conditionality would still apply. The Minister acknowledged that the domestic political problem surrounding conditionality could become a less important factor after March's local elections, but wondered if ratification in April 2004 or later would create problems because it would extend the 18-month disbursement period (which begins when the Agreement becomes effective, i.e. is ratified) beyond September 2005, the end of the period of availability for the money, per the legislation. Ambassador promised to look into this question.

[16.](#) (C) Action Request: Embassy's understanding is that the funds in question only have to be obligated by September 2005 (and in fact already have been obligated), and that there would be no problem, legally, if the disbursement schedule extended beyond that date. We further understand that the more relevant question, in terms of timing, is how long we can keep this money on hold pending GOT ratification of the

agreement. We certainly do not want to encourage further GOT delay on this. Embassy would appreciate Washington agencies' confirmation of our understanding, and would welcome guidance for use in responding to Babacan's query.

EDELMAN